

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE BETHLEHEM AUTHORITY**

SEPTEMBER 15, 2010

The regular meeting of the Board of Directors of the Bethlehem Authority was held on September 15, 2010 in Conference Room B504, 10 E. Church Street, Bethlehem, PA. The meeting was called to order at 3:30 PM by Chairman Mark Jobes, with the following also in attendance:

John Tallarico, Vice Chairman
Richard Master, Secretary
Vaughn Gower, Treasurer
James Broughal, Esq., Solicitor
John Filipos, Controller
Stephen Repasch, Executive Director
Sandra Reppert, Administrative Assistant
Daniel Meixell, Special Officer

APPROVAL OF MINUTES

Chairman Jobes presented the minutes from the regular meeting held August 19, 2010. Mr. Gower moved to approve the minutes. Mr. Tallarico seconded. Motion passed unanimously.

RECOGNITION OF VISITORS / COURTESY OF THE FLOOR

Chairman Jobes welcomed and recognized the following visitors:

- Mr. Terry Faul, Esquire, representing Delsea Energy.
- Mr. David McGuire, Lehigh Valley Sierra Club. Mr. McGuire would like to hear more information about the gas pipeline. He received a lot of calls from Sierra Club members, and told the Board there will be major controversy with the proposed route and 50- or 70-foot swath through Authority land. Chairman Jobes responded that Pocono Mountain Economic Development Corp. and UGI came to last month's meeting to discuss their proposal to provide gas to an industrial park, with Sanofi being the main end-user. The proposed route would follow along borders of Authority land, but nothing has been finalized. We welcome any feedback. He also suggested that Mr. McGuire contact the representatives at PMEDC and inform them of their environmental concerns.
- Mr. Bud Cook, The Nature Conservancy. Mr. Master queried The Nature Conservancy's views on the gas pipeline. Mr. Cook responded more information is definitely needed. They were not consulted about any options on one corridor versus another. They also questioned if a plant and animal inventory has been done on the preferred corridor. Mr. Master said the environmental community should get involved because the Board is not aware of any consequences to this type of project. Mr. Cook said the importance and support of this infrastructure cannot be underestimated because Sanofi is the biggest vaccine producer in

North America. Chairman Jobs concluded a lot more information is needed before any decision is made about the pipeline.

- Mr. Bill McNair and Mr. Mike Perlow, representing the American Society of Civil Engineers, Lehigh Valley Section.
- Mr. Stephen Antalics, Bethlehem resident. Mr. Antalics commented on the recent high-pressure gas line explosion in California in an inhabited area, and he questioned if the proposed pipeline in Monroe County will be in an inhabited area. Mr. Broughal responded no final route has been determined and, again there are Federal guidelines for high pressure gas lines in habitable areas, which the Authority is looking into.

Lehigh Valley ASCE Infrastructure Review. The American Society of Civil Engineers (ASCE) has done a report on infrastructure (water, sewer, roads, etc.) throughout the United States, which is in very bad condition and with an estimate of \$2.2 trillion to restore. Locally, the Lehigh Valley ASCE would like to perform a regional report on infrastructure and the costs for restoring it. There will be a forum next week with stakeholders to work on developing costs, funding alternatives through user fees, and proposals for legislation to help pay for upgrading. It is anticipated that a conference will be held next year to review the findings of the group. Our authority is considered a key regional water supplier, as is Allentown and Easton. They are working with City representatives on all details to make sure Bethlehem's role in the future is understood.

Mr. Repasch queried if the work could be mirroring what Renew Lehigh Valley is – or is not – doing. The response was no, the ASCE is looking at regional cooperation issues, what could be put in place to achieve what Renew Lehigh Valley is trying to do, and ultimately ask for legislation demanding it.

Chairman Jobs said this is great news for Bethlehem. Our system has an excess water supply and we've tried to promote being a regional partner in the past with no success. At some point, there needs to be better regional planning and foresight. The Authority supports this and will help in any way it can.

REPORT OF THE CHAIRMAN

Wind Energy Developer Evaluation. Chairman Jobs reported that the Board has reached a consensus to proceed discussions with Call Mountain LLC, which is a partnership between Delsea Energy LLC and Citizens Enterprises Corporation as the developer of the project. He noted, however, that There continues to be critical items to be reviewed on their term sheet. They seem to have the best package; we need to make sure they are the best fit. Once the decision is made to move forward, more information will be provided and the developer will be allowed to perform community outreach by presenting the project and why it makes sense.

Mr. Tallarico said the revenue-sharing offer was most favorable, as well as the fact that Citizens is a non-profit and a great community outreach partner in the Boston area. They also have a good track record with these types of projects.

Mr. Terry Faul said he's pleased to hear how it has progressed this far. The Call Mountain group is anxious to erect the testing towers and at this point is curious about a timeline. Mr. Broughal indicated that the Board needs to review and approve the term sheet first. City Council will also want background information and education about the project before they approve the term sheet. There will have to be an outreach meeting similar to the Tunkhannock Creek stream evaluation and the timbering program. Finally, financial assurances need to be addressed and satisfied before moving forward with the project.

Mr. Repasch indicated Call Mountain would like to install the met towers in December, and given the progress up till now, it will be difficult to attain due to Council's schedule. Chairman Jobs added that the Working Woodlands Program is first to get on Council's agenda and the wind project is second. The Board will move as quickly as it can.

Working Woodlands Program. Chairman Jobs reported that we are still waiting for this to be presented to Council's Finance Committee. There has been no date set on Council's calendar, but once it is known, all pertinent parties will be notified so they can attend in support of Working Woodlands.

Mr. Cook said he met today with the president of Palmerton Hunting and Fishing Club. There is a lot of enthusiasm for Working Woodlands, but one question the members have that needs to be answered is, "Why should we lock up our property if there is the prospect of being surrounded by an industrial scale windmill farm? That would change the whole nature of our hunting and fishing retreat." This may affect Bethlehem's relationship with Palmerton. Mr. Cook plans to meet with the members of Palmerton in the next few months.

REPORT OF THE EXECUTIVE DIRECTOR

Long Pond Gas Pipeline Appraisal. Mr. Repasch asked the Board if it believes it is appropriate to spend funds now on an appraisal for the pipeline. It would be helpful to have some idea of the value when an offer is received. The Board has consensus that it's too early to do an appraisal. Let's identify good candidates for an appraiser, as well as understand the implications of the gas pipeline and the route it will eventually take.

Zayo Agreement. Regarding the water tank at Northampton Community College, Zayo has been contracted by T-Mobile to construct a conduit for fiber optic cable to serve T-Mobile's cell tower on the water tank. This is not a major project and has no affect on the recent tank renovations. However, a Right of Access and Use Agreement is required. There is a monthly rental of \$150 that will increase 3% annually and run concurrent with T-Mobile's lease. Mr. Broughal worked with Zayo's legal team on the agreement, and Mr. Repasch would like the Board's approval of the agreement.

Mr. Master moved to approve the Right of Access and Use Agreement with Zayo as described and presented. Mr. Gower seconded. The motion passed unanimously.

Arbitrage Consultant. Mr. Repasch asked to table this topic because he needed more information from our financial advisor, Steve Goldfield of PRAG. However, the Board decided to discuss the issue.

PRAG has said that the current consultant doing the arbitrage work, DOBBS, RAM & Company, does not have the calculation correct, even after much iteration back and forth. Our bond counsel concurs as well. Because of the complexity, it is in the Authority's best interest to have an extremely experienced consultant with an understanding of IRS regulations. Unfortunately, the Authority has already paid \$1,500 (of \$3,000) to DOBBS, RAM for their work. The Authority received a proposal from The Bank of New York Mellon (BNYMellon) for them to perform the current arbitrage calculation at a cost of \$5,000 and future calculations for additional unspecified costs. The Board's consensus was to contract for a second opinion from BNYMellon for the current arbitrage issue only. A new and separate agreement would need to be in place to contract BNYMellon for additional arbitrage work.

Chairman Jobes moved to retain The Bank of New York Mellon to perform the arbitrage estimate of the repaid amount on the Series 1998 and Series 2010 bonds. Mr. Master seconded. Motion passed unanimously.

2011 Pension Plan Obligation. Mr. Repasch presented a memo to the Board notifying them of the pension plan obligation for 2011 in the amount of \$8,508. This is a requirement of Act 205. There is no action required.

3rd Quarter 2010 Expense Projection and Budget Comparative. Mr. Repasch reported the following:

Income and Expense Projection for the 3rd Quarter 2010:

- Cash on Hand at September 1, 2010 -- \$391,270
- Projected Revenues Receivable -- \$106,440 for the 3rd Quarter.
- Total Projected Professional, Administrative and Police Expenses -- \$95,010 overall for the 3rd Quarter.
- Total Projected Cash on Hand at the end of the 3rd Quarter -- \$457,540.

Wind energy proposal fees in the amount of \$9,000 have been received and are included.

Expense Budget Comparative for the 8 months ended August 31:

- Professional Services -- \$64,997, 31% of budget.
- Security and Property Expenses -- \$19,167, 63% of budget.
- Administrative Expenses -- \$152,856, 63% of budget.
- Overall -- \$237,020, 49% of budget.

2011 Budget. Although not on the agenda, Mr. Repasch informed the Board the Authority's draft 2011 operating budget is almost finalized. Some information on pension and insurance is still needed. He anticipates providing the Board with the draft in the next week or two to discuss at the October meeting. Final approval will be at the November meeting.

Mr. Gower queried if next year's budget is any different than the current year. Mr. Repasch responded the biggest issue is how to account for professional fees and other costs associated with the wind energy project. The Board believes a separate accounting will make it easier to track the project.

REPORT OF THE CONTROLLER

Mr. Filipos' report for the month ended August 31 was circulated and filed. The Emmaus principal payment of \$565,000 was made in August.

Bethlehem Authority's Audit Opinion Letter. Mr. Filipos informed the Board the audit opinion for the Authority's 2009 financial statement was received and indicated there were no Government Auditing Standard findings or Single Audit findings that related to the Authority, nor were there any management letter comments provided to the City in relation to the Authority. This is the best audit result any organization would want to receive. The Board commended him and the staff for a job well done.

2009 Maximus Cost Study. Mr. Filipos met with Mr. Repasch and Mr. Brong on the 2009 Maximus Study. He said the agreement with the City was to use the Maximus Study to evaluate the proper level of General Fund charges due from the Water Fund to the City. He questioned how much review of the Maximus Study now does the Board want its controller to do. After the Board discussed this further, Chairman Jobes said knowing the dollar amounts at issue will determine how far to investigate, especially if it is substantial. He would like Mr. Filipos to provide a letter to Mr. Repasch detailing the amounts at issue and any concerns he may have with the Maximus Study to present to the City Administration for discussion.

BRIF Investment Maturing October 13. Mr. Repasch informed the Board an investment in the BRIF in the amount of ~\$976,000 matures on October 13. Currently, there is ~\$3.5 million in the BRIF and the City anticipates spending ~\$1 million on capital expenses through the end of the year, leaving ~\$2.5 million in the BRIF and he recommends not depleting the BRIF below that amount. He feels the money can be invested for a longer term or terms because it won't be expended. The Board agreed that the investment should be laddered because there might be the need to access some of the money in the future.

Chairman Jobes would like bids for three-, six-, nine-, and twelve-month term CD's, as well as any promos. The results will be provided to the Board in time for the October meeting so a decision can be made at that time on the reinvestment.

Resolution 319 – Professional and Administrative Expenses. Ms. Reppert presented Resolution 319 to the Board for approval. The resolution was circulated, filed and totals \$72,929.93. It consists of the following:

- Requisition 308 – City's water capital invoice totaling \$57,227.86
- Professional and Administrative expenses totaling \$15,702.07

The invoices for the major capital expense work being done on the tank renovations will start coming due in the next few months.

Mr. Master moved to approve Resolution 319. Mr. Gower seconded. The motion passed unanimously.

REPORT OF THE SOLICITOR

No report.

REPORT OF THE CONSULTING ENGINEER

Mr. Repasch indicated that the consulting engineer has been very active in the capital projects work being done by the City, the grant project for Pennsylvania Avenue is ready to bid, and the 2010 Annual Report inspections have been scheduled.

REPORT OF BETHLEHEM AUTHORITY SPECIAL POLICE

Officer Meixell's report was circulated and filed. He has been very busy with ATV activity again.

WATER REPORT

The Water Report for August was circulated and filed. Chairman Jobses queried if there is need for concern about the low water levels in the reservoirs. Mr. Brong responded the low levels are not only a result of dry weather but also of operating strategy. Water is drawn from Penn Forest in order to keep Wild Creek running over the spillway, which directly impacts water quality. The State declares drought emergencies. If operations have to change for the short-term, that will occur.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

Mr. Brong reported the following as of August 31:

- The Water Fund is ~\$1.8 million behind plan, a result of \$685,000 in General Fund charges taken in August instead of the 4th quarter. This is due to a short term cash flow issue with City, but it will be repaid to the Water Fund in October. Also attributing to this is a ~\$220,000 variance in debt payments. The City has overpaid on the Emmaus loan since the beginning of the year. The excess funds were swept into the BRIF. He would like the funds to be restored on a monthly basis to the appropriate BNYMellon account as the monthly interest payments are required through the end of the year, or have the interest payments made directly from the BRIF. After further discussion, Chairman Jobses moved to authorize the payment of the Emmaus loan interest components from the over-allocated funds on a monthly basis, conditioned upon the controller's review and verification of the overpayment amount. Mr. Gower seconded. Motion passed unanimously. An authorization letter to the trustee will be required.
- Taking into consideration the above, the Water Fund is ~\$880,000 off plan, which has improved since last month. August was a good month of receipts (\$1.6 million) and good month of invoicings. The \$880,000 is comprised of consumption variances as well as collections problems. Receivables are \$1.4 million year-to-date in 2010 vs. \$1.3 million in 2009.
- The November debt service payment is ~\$4.5 million. Currently, there is \$2.5 million cash on hand and with the repayment of the \$685,000 to the Water Fund, there will be ~\$3.1 million cash on hand in October. He will present a projection to the Board at the October meeting on

the City's cash position as it relates to the debt service payment, in case there is any action that the Board may need to take. Also, as has been done in the past, the City will defer the coverage payment to a later date.

COURTESY OF THE FLOOR

Mr. Antalics said he was fascinated by the Maximus Study discussion and queried if the City misappropriated funds. Mr. Broughal responded no, there is no information that would lead to that conclusion. The most important function of the Authority is assuring the bondholders that the bonds are paid. The City is a big enterprise and at times needs to move monies amongst the different funds based on cash flows, and as necessary. It's a dynamic situation that is being managed as best as possible through working together.

NEXT MEETING

Chairman Jobs said the next meeting is scheduled for October 14 at 3:30 PM.

ADJOURNMENT

There being no further business, Mr. Master moved to adjourn the meeting. Mr. Tallarico seconded. Motion passed unanimously and the meeting adjourned at 5:15 PM.

Richard L. Master, Secretary